

Citizens Audit Review & Financial Advisory Committee (CARFAC)

February 17, 2016

7:00PM – Radnor Township Municipal Building, 2nd Floor, Administration Department

Agenda:

1. New Business:
 - a. Township Business Tax Review (45 Min)
 - b. Finalize working groups (5 Min)
 2. Old Business:
 - a. ERP Project Update (5 Min)
 - b. Monetizing Asset Project Update (5 Min)
 - c. 2015 Accomplishment Memo to the Board (5 Min)
 - d. Stakeholders Report Direction (5 Min)
 3. Public Participation
 4. Adjourn (the goal will be no later than 8:15PM)
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Attachments:

1. Minutes: February 3, 2016 Meeting (Rescheduled Regular January Meeting)
2. 2014 Accomplishment Memo to the Board
3. Initial Stakeholder's Report

Citizens Audit Review and Financial Advisory Committee

February 3, 2016
Radnor Township Municipal Building
Administration Area, 2nd Floor
301 Iven Ave., Wayne, PA 19087

Meeting Minutes

Chairman Mark Blair called the meeting to order at 7:01PM. In attendance were CARFAC members Mark Blair, Marty Dwyer, Michael Antonoplos, Jerry Linden, Leo Marte and Mary Hoeltzel. Committee members Ed Caine, Jeff Ruben, and Carl Rosenfeld were unable to attend. Others present included 1st Ward Commissioner James Higgins, 3rd Ward Commissioner Lucas Clark IV, 4th Ward Commissioner Elaine Schaefer, 5th Ward Commissioner John Nagle, and 7th Ward Commissioner Phil Ahr, Township Manager Bob Zienkowski, Finance Director Bill White and Assistant Finance Director/HR Manager Bob Tate. 6th Ward Commissioner Donald Curley joined the meeting at 8:15pm. No members of the public were present.

1. New Business:

- a. Township Business Tax Discussion: Chairman Blair opening the meeting by announcing that several business owners will be present at the February 17, 2016 CARFAC meeting, to discuss the Township's business taxes. After a brief discussion, it was agreed that CARFAC will serve as a sounding board to allow businesses to speak their concerns; CARFAC will then report back to the Board. Mr. Tate distributed copies of the Township's business privilege and mercantile tax codes and regulations to all CARFAC members present.
- b. 2016 CARFAC Priority Setting with Commissioners: Chairman Blair opened the discussion by stepping through each of the 2015 priorities to provide the attending Commissioners with updates on each project. As in past years, these updates and other ad hoc projects CARFAC participated in during 2015 will be summarized in a memorandum from CARFAC to the Board, to be completed by month-end.

Chairman Blair shifted the conversation to the Commissioners to hear their priorities for CARFAC in 2016. A summary of each Commissioner's priorities:

- Commissioner Schaefer: Asked CARFAC to cancel a legal review of the pension spiking issue since legislation has been drafted at the State level and is moving through that process. Priorities for 2016 included: (a) Staffing Analysis and (b) Capital Funding Plan with a dedicated funding source.
- Commissioner Nagle: Priorities for 2016: (a) Capital Funding with an emphasis on infrastructure planning and financing expenditures; (b) Evaluate the possibility of improving the Township's credit rating to Aaa from the current Aa1.

- Commissioner Higgins: Priorities for 2016: (a) Capital Funding Plan with a similar emphasis on infrastructure; particularly the sanitary sewer system.
- Commissioner Ahr: Priorities for 2016: (a) Staffing Analysis to establish a baseline and discover potential efficiencies as a result of business process improvements; (b) Capital Funding Plan with an emphasis on “plan.” He noted that a formal plan that can be considered by and adopted by the Board will inspire confidence among the residents.
- Commissioner Clark: Priorities for 2016: (a) Review of the Act 511 revenue as it relates to the impact on small businesses.
- Commissioner Curley: Expressed his satisfaction with CARFAC’s products and had no specific agenda items for the group in 2016.

2. Public Participation: None

3. Adjourn: The meeting was adjourned at 8:20PM.

To: Radnor Township Board of Commissioners Finance Committee
From: Citizens Audit Review & Financial Advisory Committee ("CARFAC")
Date: February 27, 2015
Re: Review of 2015 priorities

Elaine Schaefer, John Nagle and Rich Booker joined CARFAC for its October 15, 2014 monthly meeting. Bob Zienkowski, Bill White and Bob Tate were also present. After hearing from the Board and the Township Administration, CARFAC views the following as its priorities for 2015:

CARFAC's view of its priorities for 2015:

- 1) Planning & Budgeting
 - a. Prepare a financial analysis pertaining to the BioMed redevelopment site. The analysis will highlight the financial impact that the redevelopment would have on the Township's long-term forecast (to include quality of life / traffic impact as well)
 - b. Review the Township's unfunded liabilities on an on-going basis. Additionally, in 2015, conduct a review of the legality and financial impact of "pension spiking." This analysis will look at the impact of modifying this practice as it relates to the potential reduction or elimination of the 20% bump-up assumption in the actuarial report.
 - c. Continue to update, refine and design additional approaches to using the five-year planning model. At the same time, conduct a comprehensive review of the Township's current capital program, with the goal of providing recommendations on program funding, execution, and how the capital plan incorporates into the Township's long-term forecasting model.
 - d. As requested by the Township Manager, participate in reviewing public-private partnership possibilities on a case-by-case basis.
- 2) Audit
 - a. Oversee the Audit plan and process; interact with the public accounting firm's staff.
 - b. Continue to work with staff and auditors to identify and address any material weaknesses and/or significant deficiencies that may be discovered as part of the audit process.
 - c. Continue to work with staff to improve financial controls and processes.
- 3) Operations
 - a. Continue to drive the design and implementation planning of an information technology (IT) solution for the Township, with a projected completion of January 1, 2016.
 - b. Continue to work with Township Administration and the Board to recommend and move forward with an approach to monetize certain Township real assets.
 - c. Reopen our analysis of the Township's approach to providing engineering services to the Township. Expand the project to include specific performance/delivery metrics that can be tracked and reported.
 - d. Review the Township's current and historical full-time staffing levels, and examine the levels required to provide services to taxpayers up to the standards specified by the Board; report to the Board.

CARFAC’s view of its accomplishments in 2014:

- 1) Stakeholder’s Financial Summary Report: One of the Committee’s primary goals is to help educate the Board of Commissioners and Residents on the financial position of the Township. That being the case, CARFAC developed the first ever “Stakeholder’s Financial Summary” report that was published in March 2014. This was a pioneering effort aimed at bringing awareness and transparency to the Township’s finances.
- 2) Planning & Budgeting
 - a. Recommended adoption of revised Fund Balance and Nonrecurring Revenue Policies as part of the Board’s prescribed priority to recommend the treatment of one-time revenue. The impact of CARFAC’s recommendations is greater financial stability during times when business tax revenue is strongest by establishing up to an additional 10% of expenditures in a rainy day fund.
 - b. Maintained on-going review of unfunded liabilities.
 - c. Continued to update and refine the five-year planning model, a vital lens through which to anticipate the effects of different strategies.
- 3) Audit
 - a. Participated in the 2013 Audit process; met with the Board to review issues; recommended acceptance of the Independent Auditor’s Report and Audited Financial Statements.
 - b. Assisted staff in continuing to reduce the number of Material Weaknesses, Significant Deficiencies and Other Deficiencies in Township financial controls and procedures identified by the outside Auditor:

	2008	2009	2010	2011	2012	2013
Material	11	10	6	1 *	0	0
Significant	4	3	4	0 *	0	0
Other	18	14	17	9 *	2**	3
Total	33	27	27	10	2	3

* For 2011, seven of the Management Letter comments were addressed in 2011, but still included in the Auditor’s letter. ** For 2012, two of the Management Letter comments were addressed in 2012 but still included in the Auditor’s letter. This table reflects the total comments *after* those items were removed.

- c. Reported Comprehensive Annual Financial Report (“CAFR”) in a timely manner. The 2013 CAFR was recognized the Government Finance Officers Association (“GFOA”) by receiving their Certificate of Achievement for Excellence in Financial Reporting. This is the third year in a row that the Township has earned this award (2011 - 2013).
- 4) Operations
 - a. Delivered state grants, through Rep. Bill Adolph, totaling \$254,325 for the Clem Macrone Park Master Plan and the Wayne Senior Center.
 - b. Recommended an Act 511 Discovery program, approved in 2013 and enacted in 2014, which enhanced net business privilege and mercantile tax revenues by \$136,560 during calendar year 2014.
 - c. Recommended an Open Space purchase funding strategy that will save taxpayers roughly \$387,000 over the life of the bonds used to finance the Ardrossan purchase and which permit the borrowing to be ‘bank qualified,” thereby enabling the Township to refinance the bonds in five years rather than ten, if market conditions are favorable.
 - d. Began the design and implementation planning of an IT solution for the Township.
 - e. Collaborated with the Township Administration and the Board on the initial conversations to design an approach to select and monetize unused or underutilized township assets, and those assets that provide exceptional opportunities to improve the Township’s financial condition.

Stakeholder's Financial Summary

March 2014

The Board of Commissioners and Township Administration are pleased to present this summary of the Township's financial position, activities, and plans to the stakeholders of Radnor Township – residents; businesses, educational institutions and other organizations and their employees; township employees; and other interested parties. This publication is the result of the Board of Commissioners following through on the Citizen's Audit Review & Financial Advisory Committee's ("CARFAC") goal of improved communication on the Township's finances.

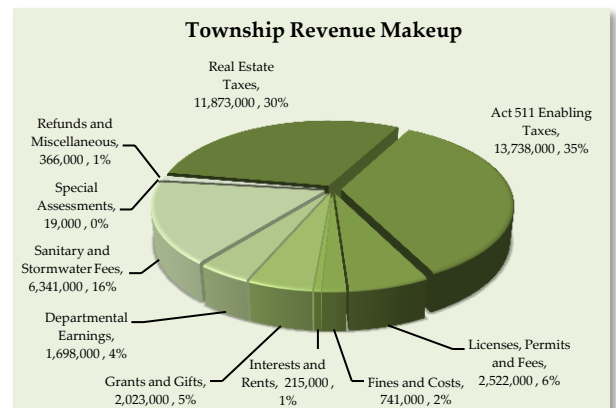
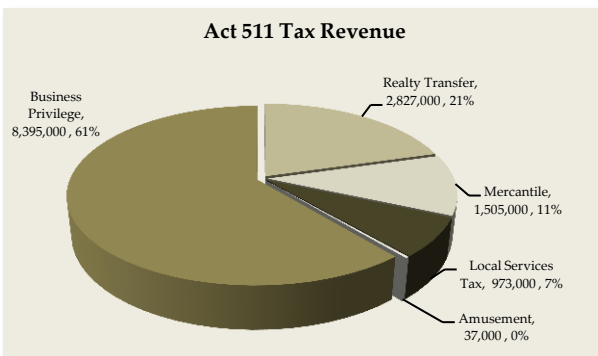

Overview

Radnor Township encompasses 13.83 square miles in the northwestern corner of Delaware County, Pennsylvania. The Township has a population of 31,531, and consists of all or portions of the Bryn Mawr, Garrett Hill, Newtown Square, Radnor, Rosemont, St. David's, Villanova, and Wayne neighborhoods. The Township is a legal entity separate from the Radnor Township School District, which serves the same geographic area. Township services include police protection, public works (including trash collection, streets, sewers and storm water), government administration, community development (including building and codes enforcement), parks and recreation and financial support to the library, fire companies, and other community organizations.

The Township budgets for its activities through an annual budgeting process and a five-year capital plan. The fiscal year is from January 1 to December 31. The Township follows governmental accounting and reporting standards, under which separate funds are maintained, including the General Fund, the Sewer Fund, and the Park Improvement and Open Space Fund. The Township also has fiduciary responsibility for separate funds for employee pension benefits. The Township issues an annual financial report which is audited by an independent accounting firm.

Revenues

Anticipated revenues of \$39.5 million for 2014 (excludes interfund transfers) come approximately one-third each from real estate taxes, Act 511 taxes, and from fees, fines and other charges for services (permitting, departmental earnings). Act 511 taxes include a business privilege and mercantile tax on gross receipts, as well as a local services tax and realty transfer tax. Fees include the sewer rent fee, which is a separate charge for those connected to the township sanitary sewer system, and the Stormwater fee, which is a separate charge for all properties in Radnor based on impervious area. Charges for services include permitting revenue from local development projects and departmental earnings including recreational programming, parking, and police extra duty revenue. Radnor Township does *not* impose an earned income tax, which is similar to most other local governments on the Main Line, but different from most local governments statewide. Radnor Township also does not impose a trash collection fee. Several adjacent townships impose trash collection fees of several hundred dollars per year, or in some cases, do not provide trash collection service at all.

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to
**Township of Radnor
Pennsylvania**

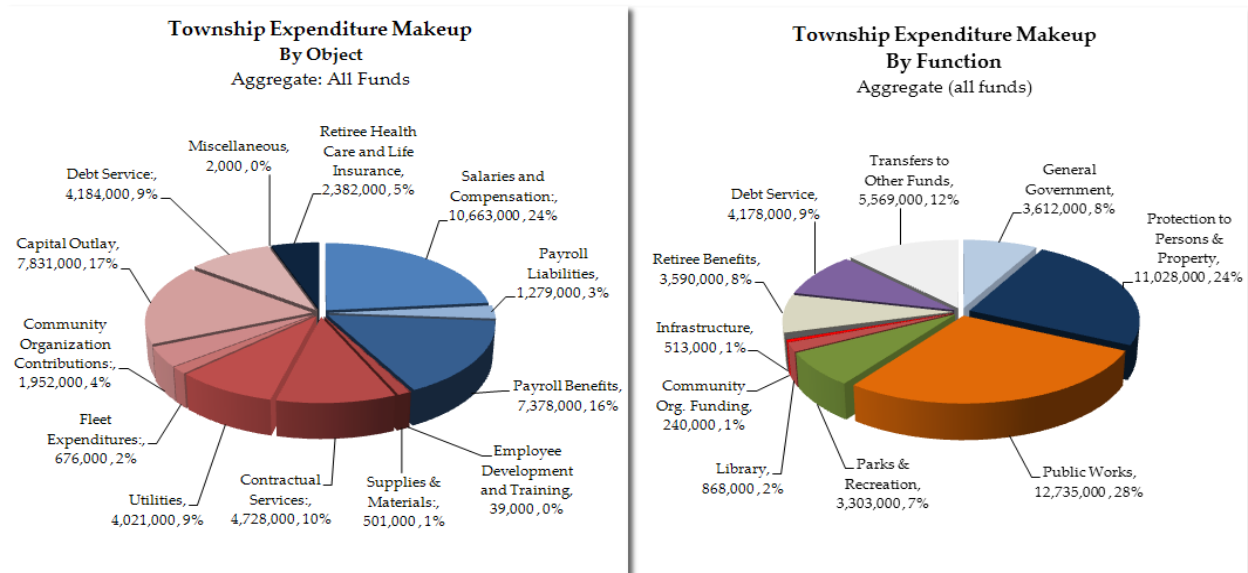
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2012

Jeffrey P. Egan
Executive Director/CEO

Expenditures

The charts below present two views of Township anticipated expenditures of \$45.6 million for 2014. Please note that the excess of expenditures over revenues is the result of non-recurring capital expenditures funded by a business tax settlement in 2013. Operationally, 2014 revenues are sufficient to meet expenses. The pie chart on the left shows the expenditures by object – the *type* of expenditure. As seen in the chart, the largest component of expenditures is for salaries and benefits (indicated in shades of blue), which is typical for local governments. Other large components of expenditure are for debt service and capital outlay. The \$4.0 million expenditure for utilities includes payment by the Township to the regional sewerage authority and is funded by the sewer rent fee.

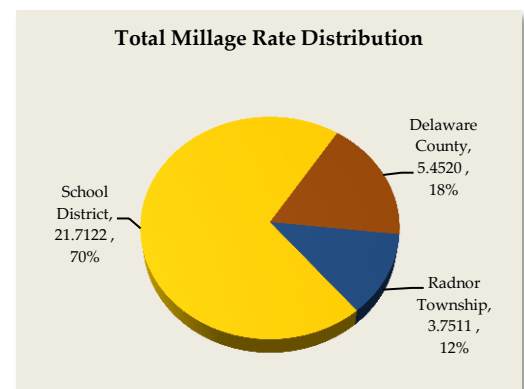
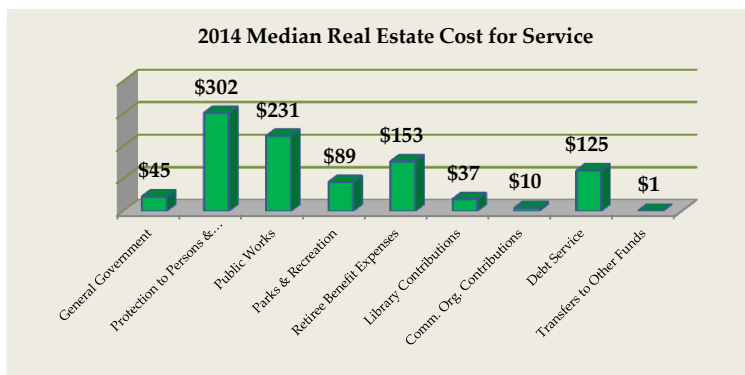
The second pie chart depicts the same expenditures by township function. As the chart shows, the largest expenditures, comprising more than half of the budget, are for Public Works and Protection to Persons and Property, which includes the Police Department, Community Development Department and fire contributions.



Real Estate Tax

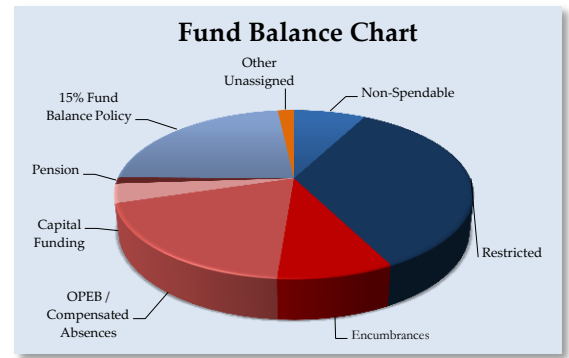
The chart below to the left looks at township expenditures from the perspective of how the township real estate tax bill of the average Radnor resident is distributed amongst the broad service categories. The median residential assessed value is \$264,710 which equates to a Radnor Township tax bill of \$993 (rounded). So for example, the portion of that tax bill that goes toward Protection of Persons and Property is \$302 per year.

Radnor Township is one of three governmental entities that tax Radnor property owners (*residents and businesses*) based on the assessed value of their property. The chart below to the right shows that Township real estate tax bill (3.7511 mills per \$1,000 of assessed value) is 12% of the total real estate tax paid when the payments to the Radnor Township School District and Delaware County are included.



Fund Balance and Debt

As of December 31, 2012, the Township's Balance Sheet showed \$17.9 Million in Assets, \$2.0 Million in Liabilities, and \$15.9 Million in Fund Balance. The Township has adopted a policy to target the General Fund's balance at 15% of expenditures. The restricted fund balances represent amounts that can only be spent for specific purposes based on local laws or limitations imposed by creditors, grantors, and contributors. Examples include all of the Township's non-General Fund activity such as sanitary sewer fund balances, debt service fund balances, capital fund balances, park and open space fund balances and others. The remaining fund balance was assigned to specific purposes, including capital expenditures and certain long term liabilities as identified on the Fund Balance Chart.



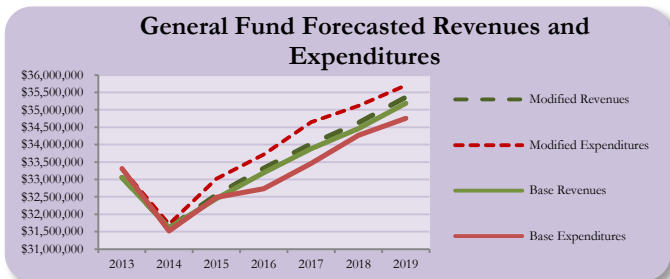
The Township has approximately \$47 Million in outstanding bonded debt, held in four separate bond issues that mature at various times through 2037. Principal and interest payments from 2014 through 2037 total \$77 Million. Over time as the bonds were issued, the proceeds were used for various purposes, including open space acquisition, capital needs, buildings, including the Township Building, library and public works garage, as well as various other infrastructure improvements. Please note that these figures do not include the bonds needed to acquire the 71 acres of open space at Ardrossan, as approved by the Board of Commissioners in December 2013. Depending on several variables, the amount of the bonds is not expected to exceed \$10 million. The Township has been taking steps to help reduce the overall debt cost. Since 2010, three of the four bond series have been refinanced, reducing the interest cost considerably on each of the bonds. Additionally, in 2013 the Township refunded its 2004 Bonds and at the same time, used the savings to terminate the Swap agreement. In doing so, the Township eliminated the risk and escalating expense associated with the agreed upon interest payment to the counter-party ("Swap") and the variable rate debt that would have been required beginning in August of 2014. The Township's current credit rating from Moody's is Aa1. This represents the second highest rating, just below Aaa.

Long-Term Liabilities: Pensions and Other Post-Employment Benefits ("OPEB")

In addition to future bond payments, the Township has other substantial long term liabilities for payment of future employee benefits including pensions and retiree healthcare. The Township maintains separate pension funds for police and for civilian employees. As of December 31, 2012, these two funds held \$38 Million in assets. However, these assets represented only 67% for police and 57% for civilian of the actuarially determined amount needed to fund future benefits, or stated another way, the plans should have \$22 Million more in assets today. This shortfall is being amortized, with current annual payments of almost \$3.1 Million. OPEB includes healthcare benefits provided to retired unionized police and civilian employees. The Township is contractually obligated to pay this benefit, but has only begun to reserve funds for future liabilities. Current annual expenditures for this benefit are \$2.2M and are projected to rise to \$5 Million over the next 20 years. To help manage OPEB liabilities going forward, the Township has achieved four significant cost containment agreements/ policies: (1) Successfully negotiated eliminated or reduced benefits for new civilian and police hires, (2) eliminated OPEB from all future non-union personnel, (3) began allocating General Fund balances in excess of the target level of 15% of annual expenditures, (4) and adopted a long-term OPEB Funding plan which aims to incrementally increase set-aside funding over the next 10 years in an effort to build reserve assets needed to pay for future benefits.

Financial Forecast

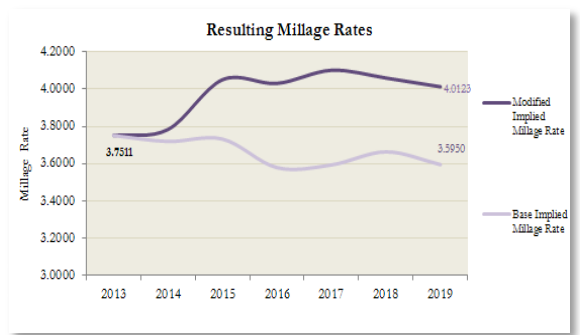
The Township's budget now includes a five year forecast of revenues and expenditures for the General Fund. The forecast provides additional insight into setting the real estate tax rate and fees by evaluating year to year changes in light of future projections. The forecast includes "base" revenues and expenditures, which assume normal inflationary growth on today's programming costs. Then, the forecast allows the Township to modify revenues and/or expenses based on



new information or programming, and then compare the results. For each model, the resulting implied real estate tax is computed. It is important to note that the real estate tax is the only tax where the Township has the authority to change the rate. Consequently, the only way for the Township to generate additional revenue without adjusting taxes is through economic development (expanding tax base) and/or through fees that directly offset the cost of a particular program.

Financial Forecast (Continued)

Forecasted base operations show that revenues appear to be sufficient to cover expenses over the next five years. That is why the forecasted millage rate for Base Implied Millage Rate is relatively unchanged. Alternatively, the Modified Expenditures on the preceding Forecast Revenues and Expenditures chart shows that expenditures are forecasted to outpace revenue levels. The modified forecast includes today's programming, plus the net revenue from the Ardrossan development minus funding for the newly adopted OPEB funding plan and the cost of the Ardrossan open space purchase. Consequently, as shown on the Resulting Millage Rates chart, the forecast anticipates that future real estate tax increases will be needed to meet projected modified programming needs.



Over the past two years, the Act 511 taxes have surpassed the real estate taxes as the primary revenue source. This has two profound effects on the Township's forecast: First, assuming expenses are generally fixed, as Act 511 tax revenue increases, the amount of real estate taxes needed to balance the budget decreases. In other words, an expanding business tax base will equate to lower real estate tax rates over time. Second, the township now relies more heavily on revenues that are more volatile than real estate taxes. Case in point: From 2008 to 2009, the Act 511 taxes dropped by over \$2.2 Million. Again, a larger business tax base helps mitigate the risk of the total revenue dropping dramatically, but real estate taxes will always be more stable and reliable over time.

Major Initiatives: Transparency and Fiscal Improvements

Since 2010, many initiatives have been undertaken and continue to improve financial processes, accountability, and transparency and to address the longer term financial liabilities of the Township, as highlighted below:

<p>CARFAC</p> <p>Members: Mark Blair, Chair Michael Antonoplos Jim Bowes* Karl Bupp Edward Caine Laurent Chardonnet Joseph Ellis Leigh Gourmand Jerry Linden</p>	<p>In 2011, the Board of Commissioners created the Citizens' Audit Review and Financial Advisory Committee ("CARFAC"). CARFAC provides an additional layer of oversight so as to enhance the Township's effort to promote transparency in financial accountability and to ensure the appropriate and proper expenditure of taxpayer dollars. CARFAC consists of nine (9) volunteer members whose responsibilities include reviewing and making recommendations for improvements in the Township's audit process, fiscal planning, budgeting, business processes and educating the public on these initiatives.</p> <p>* Jim Bowes passed away on November 20, 2013, but not before providing CARFAC and the Township with thoughtful, accurate, and fair positions toward <i>all</i> discussions and projects worked on by the group. Jim's unwavering stance on the need for public education regarding the unfunded liabilities was the primary reason that project was priority #1 in 2012. Jim's contributions are still tangible today and moving forward as he was the primary champion of the newly adopted OPEB funding plan.</p>
<p>Financial Reporting and Transparency</p>	<p>The Township has vastly increased the level of financial information available. This report is a product of the increased reporting focus. The budget contains much more detail, including narrative explanation and analysis. Monthly financial reports are produced and posted to the Township web site.</p>
<p>Five Year Forecast and Capital Plan</p>	<p>A five year forecasting model, described earlier, has been created and will be updated annually as part of the budget process.</p>
<p>Audit</p>	<p>The Township has improved the timeliness of the audit, and produced a Comprehensive Annual Financial Report (CAFR) which achieved the Government Financial Officers' Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting. More importantly, working with CARFAC, audit findings have been reduced from thirty-four in 2008 to two in 2012, with all Material and Significant findings eliminated.</p>
<p>Long Term Liabilities</p>	<p>Analysis of pension and OPEB costs and projections has been completed to provide better information for decision making and financial planning. A formal OPEB funding plan has been adopted. The Township has refunded bonds, when callable, to take advantage of lower interest rates. An interest rate swap agreement made in 2004 was terminated in 2013.</p>
<p>Financial Operations</p>	<p>Internal controls and procedures have been reviewed and strengthened, and policy and procedures manuals have been adopted. Collection of Act 511 business taxes has been improved to simplify reporting for taxpayers and streamline auditability.</p>